
BOOK REVIEW

Nonaka, Ikujiro and Takeuchi, Hirotaka. 2019. *The Wise Company: How Companies Create Continuous Innovation*. Oxford: Oxford University Press, 304 pp. Hardcover 29.95 dollars.

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Practical wisdom (*phronesis*), as presented by Aristotle (ca. 350 B.C.E./2009), has been brought into management in recent decades and more recently into the knowledge management field. This construct consists of properly applying the moral and intellectual virtues to achieve appropriate and good results. However, the understanding of practical wisdom in management varies according to the authors and the purpose of its application.

Nonaka and Takeuchi, in their book, *The Wise Company*, discuss the evolutionary process of the *knowledge-creating company* developing toward *the wise company*. Ikujiro Nonaka, PhD in Business Administration from the University of California and Professor Emeritus Hitotsubashi University, Japan, and Hirotaka Takeuchi, University of California and current professor at Harvard Business School collaborated once again to discuss the impact and interaction of knowledge, values, personal goals, and societal welfare for a higher purpose.

The authors remind readers of the discussion in their previous book, *The Knowledge-Creating Company* (Nonaka & Takeuchi, 1995), of the global acceptance of their knowledge creation process concepts. The preface reports on developments in knowledge management over the last 25 years. The authors justify their second book on the same subject, providing three explanations, (i) the need to escape the "SECI-stuck" syndrome; (ii) the drastic social changes in recent decades; (iii) the need to reframe the knowledge-creation theory concerning the impact on society. The preface concludes with the poem *The Bridge Builder*, by American poetess Will Allen Dromgoole, and a dedication to the younger researchers and managers.

The book is divided into two parts, the first with three chapters is the *New Theoretical Foundations*, the second with six chapters is the *Six Leadership Practices of the Wise Company*. The authors conclude the book with an Epilogue, *The Last Word*. Chapters 1 through 3 clarify the path from knowledge to wisdom, the foundations of knowledge practice, and a reformulated knowledge creation and practice model. From Chapters 4 through 9, the authors present leadership practices to move from theory to practice in each chapter. These chapters discuss their earliest approach to the *Wise Leader* (Nonaka & Takeuchi, 2011) deeply. Concerning the six practices, they are cumulative and interdependent. Also, leaders ought to continuously cultivate practical wisdom to turn it into a habit in decision-making.

Part I

The events disturbing the world in the last twenty-five years are discussed at the very beginning, demonstrating how "all the knowledge in the world did not prevent the collapse of the global financial system (...)" (2019, p. 3). The authors explain three

causes for the recent problem. First, companies are not appreciating the right kind of knowledge by placing more value on explicit knowledge; thus, disregarding the dependence of social phenomena on values, personal goals, and interests. Second, managers should be asking themselves what kind of future to create, beyond the shallow interests of the company. Their decisions should be good for society and their companies; management ought to serve a higher purpose. Third, maybe the proper kinds of leaders are not being nurtured. They should be able to manage the business, seeing details while considering the future's bigger picture.

The authors present three cornerstones to solve these challenges, (a) wisdom, (b) *phronesis*, and (c) *ba*, that will promote the following organizational practices (d) continuous innovation, (e) spiral SECI up to the societal level, as a method to create a better future. They address wisdom as "a higher-order tacit knowledge that enables us to grasp the essence" (2019, p. 6). *Phronesis* as a wisdom of practical affairs. *Ba* as the context for creative interaction. Organizations will achieve continuous innovation by ceaseless hypothesis-testing, experimentation, and prototyping. Continuous innovation requires organizational commitment and shared purpose and beliefs. To give a practical approach, they tell the story of Honda Motors. Moreover, the authors highlight the importance of a company's mission, vision, and values.

The last topic of Chapter 1 revises the book's purpose as a sequel of *The Knowledge-Creating Company* and the unfinished business the authors address in the following chapters. Finally, they end with an appendix reviewing tacit and explicit knowledge represented as an iceberg, tacit below the surface and explicit at the tip. Currently, the Thermodynamic Approach of the knowledge fields discards the metaphor of knowledge as a solid object by using energy to represent rational, emotional, and spiritual knowledge (Bratianu & Bejinaru, 2019).

Chapter 2 revises many dimensions of the knowledge practice foundations, philosophy, knowledge practice, science, and social science management. First, philosophy, contemplating Aristotle's *techne* (technological know-how) and *episteme* (scientific knowledge) differing to *phronesis* (practical wisdom). Followed by European phenomenologists (Edmund Husserl, Martin Heidegger, and Maurice Merleau-Ponty) and American pragmatists (Charles Peirce, William James, and John Dewey) regarding how people obtain knowledge about the world, an intrinsically subjective knowledge. Second, addressing Michael Polanyi's approach to knowledge practice because of his premise that all knowledge is engrained in practice and his influence in the previous book. Third, Science, examining current neuroscience discoveries. Lastly, Social Science and Management, approaching behavioral topics related to organizational (collective) knowledge practice, organizational memory, habits, contextual judgment and dynamic capabilities, sheared value creation, and corporate social responsibility.

Chapter 3 concludes the first part of the book by revisiting the SECI model. They expand their theory by creating the "first modern model of knowledge creation and practice" (2019, p. 59). This new model has *phronesis* as the driving force in the middle of the spiral going up in time (one of the model's dimensions) once they are pursuing a common good. Then, assuming that knowledge practice quality will be amplified over time. They argue that the "SECI-stuck" syndrome derives from the absence of *phronesis* as its driving force. The other dimensions are (a) ontological, regarding interactions between individuals, organizations, inter-organization, and society; (b) epistemological, concerning the ongoing dynamics between tacit and

explicit knowledge. The authors slice the model accordingly with its epistemological and ontological dimensions. To illustrate the knowledge creation/practice model interactions, the authors use an in-depth case study, Japan Airlines.

Part II

Chapter 4 opens the second part of the book, addressing the practices providing an escape from the "SECI-stuck" syndrome. The first statement is "*Wise Leaders Make Calls on What's Good for the Company and Society – Not Just Shareholders*" (2019, p. 97). This chapter joins American and Japanese leaders and CEOs who share this same trait, a moral reason. Judging goodness, they find intersecting concerns between the company and society. Following wise leadership practices, Chapter 5 asserts that "*Wise Leaders Grasp the Essence Quickly and See the True Nature of Events and People*" (2019, p. 119). Practical wisdom is the quality enabling the capacity to see behind a challenging situation and articulate actions and consequences. Practical wisdom requires abandoning a Cartesian view, bonding actions essentially distinct, such as seeing the big picture while valuing attention to details and blending intuition along with rational knowledge. Chapter 6 addresses *ba* creation, affirming that "*Wise Leaders Construct New Meaning through Human Interactions*" (2019, p. 145), meaning they create openings for learning and knowledge co-creation inside the organization, regardless of the member's position. To summarize, knowledge is created in a *ba*, and knowledge is immersed in a *ba*; it is a context (e.g., virtual, physical, cognitive, a blend) with committed participants sharing a sense of purpose. Chapter 6, dedicated to *ba*, brings examples of Japanese and American companies (e.g., Shimano and Wal-Mart) creating many forms of *ba* (e.g., face-to-face and virtual).

Communicating the essence is reported in Chapter 7. Another essential characteristic, "*Wise Leaders Use Metaphors, Stories, and Historical Imagination*" (2019, p. 167). Capturing the essence of a challenging situation and putting the organization's agenda into action requires effective communication so members can understand the purpose and do their part in the solution. Therefore, wise leaders master rhetoric and know how to use figures of speech (they recommend sport and child-based metaphors) to help the members absorb the situation and the plan communicated. Nonaka and Takeuchi discuss wise leaders' political power in Chapter 8, stating how "*Wise Leaders Exercise 'Political' Power to Bring People Together and Spur Them to Action*" (2019, p. 195). To exercise political power, the leader needs to capture the situation's essence and people, involving them to act according to the company's purposes. The authors combine Machiavelli's teachings in that reprehensible attitudes are sometimes necessary, such as positive disobedience, for the higher good.

Chapter 9 focuses on the last practice, fostering practical wisdom in others. This chapter deals with *phronesis* distribution from the individual level (leader) to the collective level (organization) by cultivating several wise leaders in the company. Thus, leaders ought to train members of all levels to use practical wisdom, with middle managers being the facilitators in the process of distributive leadership. The authors use a metaphor and an illustration to describe it, the Sun Wukong (Son Goku), the Monkey King, by removing his fur and blowing in the air, each one becomes magically a clone of the king (2019, pp. 225–226). Only in this last chapter do the authors present a clear idea of what a wise company is: characteristics such as a company composed of wise leaders at all levels using the middle-up-down distribution system. Leaders are

constantly creating heirs. Members practice *phronesis* at all levels exploiting the power of small groups. It has an inside-out strategy, intent on creating a future based on its values with an idealistic pragmatism. Finally, it is a wise company that cultivates practical wisdom at all levels to achieve longevity and continuous innovation.

In the Epilogue, the authors express their concern about building human-centric management and doing it in a digital and more complex world. Innovation is a starting point toward continuous innovation. They point out three stages (i) zero to one: emerging on ideas that never existed before; (ii) one to nine: innovation flourishing using science, mathematics, engineering, and technology; (iii) nine to ten: innovation sophistication by sensitivity and aesthetics. The last section asks the readers to execute the actions remembering that "the true wisdom of knowledge manifests itself in action" (2019, p. 260).

It is no wonder that the authors are worldwide the most distinguished in the knowledge management field. The book is suitable for academics and practitioners; it provides case studies bridging theory and practice straightforwardly and with accessible language. In addition, the authors provide many case studies and examples. However, readers should consider an inherent cultural bias, as most of the companies are Japanese.

Since the beginning of the book, when the authors differentiate wisdom (*sophia*) and practical wisdom (*phronesis*), they allocate practical wisdom as a type of wisdom. Nevertheless, Aristotle (ca. 350 B.C.E./2009) clearly states that they are different constructs because they deal with different objectives. The Greek philosopher did not offer a hierarchy. Following the text, it is possible to see the term wisdom, wise leaders, and wise company referring to practical wisdom, practically wise leaders, and practically wise company because of this hierarchy, since the authors put *phronesis* as a form of *sophia*, the wisdom of human affairs.

The sequence of chapters provides a background for those who are not so familiar with the previous book, and in part 2, the authors go deeper into the theoretical developments of this text. Furthermore, it is a sequential book; hence, prior knowledge of the theory is recommended; one can read the various articles by the authors, not just the first book. Irrevocably, it is a book with a smooth read for those familiar with the theory and terminologies. Even Chapter 2, which deals with European phenomenology and American pragmatism, does so gently so that readers can understand it without a philosophical background. All chapters have endnotes with explanations, examples, and quotes, making the main text's content simultaneously even more clear and dense. Almost every chapter also has a summary, helping readers remember the subject and have a concise overview of the content.

The Wise Company focuses on the practical wisdom in organizations, where the leader is the main actor, and the *phronesis* will be shared and applied in the company as a knowing. Therefore, it opens several doors to future research, including empirical testing of their SECI model new version. Finally, I propose a reflection about the difference between the practical wisdom of organizations and practical wisdom in organizations. Once practical wisdom is a newborn subject in the knowledge management field, we should be aware of the difference between having practically wise people in an organization and a practically wise organization that maintains its status (even with other "levels") regardless of the changes in the leadership and internal stakeholders. This awareness is crucial in studying collective practical wisdom and its

forms.

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